

CALIFORNIA OIL SEVERANCE TAX

This bill, beginning on and after July 1, 2008, would impose a 6% severance tax on oil extracted from the ground or water in California and use the proceeds to mitigate teacher layoffs that would result from the Governor's cuts to K-14 education. The oil severance tax will not apply to federal oil production, nor will it apply to "stripper wells" if the price of oil falls below \$50 per barrel.

- California is the only oil-producing state that does not tax oil that is owned, leased, or extracted from private lands in this state. In contrast, Alabama, Alaska, Colorado, Florida, Idaho, Kansas, Louisiana, Michigan, Mississippi, Montana, Nebraska, New Mexico, North Dakota, Ohio, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wyoming levy a severance oil tax at the rates ranging from 2% to 15%, in addition to other taxes imposed by those states on oil producers or purchasers.
- The oil severance tax will be required to be paid by a producer of oil that is generally defined as any person that extracts oil from the ground or water, owns or manages an oil well, or owns a royalty interest in oil in California.
- The oil severance tax will not apply to oil wells that produce less than 10 barrels of oil per day (so-called 'stripper wells'), unless the price of oil at the well head was more than \$50 per barrel.
- The revenue raised from the imposition of the severance oil tax will be used exclusively to fund K-12 education to mitigate teacher layoffs that would result from the Governor's proposed budget cuts.
- The petroleum industry has experienced enormous increases in profits in recent years. In light of the recent increases in the price of oil, a severance tax is reasonable, logical, and could provide needed funds to offset the cuts to education currently proposed by the Governor.
- The imposition of this tax will have no material impact on investments, production, or prices of oil in California because high demand for oil will continue to make the petroleum industry one of the most profitable in the world.
- The oil severance tax law will not create an additional financial burden for consumers because it prohibits the producers or purchasers of oil to gouge consumers by using the tax as a pretext to materially raise the price of oil, gasoline, or diesel fuel.

- Revenue estimate:
 - The 6% severance tax levied beginning July 1, 2008 will raise about \$970 million in 2008-09 and \$960 in 2009-10. The estimates assume about 190 million barrels of annual production subject to the tax, and an average price about \$85 per barrel (California crude oil is heavier and less expensive than oil used in key price benchmarks.)
 - The measure could also result in unknown reductions in local property taxes and state tideland revenues, ranging up to the low tens of millions annually.